The South Dakota Retirement System

NCSL Cross-Branch Invitational Seminar on Pension Topics

Robert A. Wylie
Executive Director Emeritus
South Dakota Retirement System (SDRS)

December 10, 2019
SDRS Objectives

• Objectives:
  – Manage the plan with fixed contributions
  – Provide appropriate and adequate benefits
  – Fully funded

• Objectives achieved by following:
  – A disciplined approach to plan management
  – Best practices in benefit design, funding, disclosure, and risk measurement and management
Elements Essential to Meeting Objectives

- **Variable features** that adjust benefits to changing market conditions and plan experience
- **Funding thresholds** that require immediate actions
- Effective and responsible **governance**
Our Scorecard

- A fixed budget for retirement benefits, automatically adjusting benefits, and specific minimum funding measures
- Benefits meet specific income replacement adequacy objectives
- Risk quantified and action plan developed for additional actions when and if needed
Additional Thoughts

• Fixed contributions are a prudent financial decision

• SDRS has been managed and has evolved based on this funding discipline

• Additional risk measures must be developed and communicated to provide transparent disclosure of the likelihood of meeting the funding policies and benefit goals of SDRS

• Consider equitable benefits for shorter-service members – possibilities include refunding a portion of employer contributions and indexing deferred benefits
Projected Future COLA Ranges: 2021 Benchmark Asset Allocation Statistics

Ignoring FY20 returns to date, the likelihoods for July 2021 COLA ranges, which are primarily driven by FY20 investment returns, are:
- 19% likelihood that a 0.5% COLA will be payable and additional Corrective Action recommendations will be required
- 41% likelihood that the COLA will have a restricted maximum (CPI-W between 0.5% and the restricted maximum)
- 40% likelihood that the COLA will be CPI-W between 0.5% and 3.5%, with a 5% likelihood of considering benefit improvements

* Before consideration of liability gains/losses. Likelihoods based on SDIC 2019 benchmark asset allocation investment portfolio statistics (mean = 6.29%, standard deviation = 15.4%).
### Managing SDRS based on Fixed, Statutory Contributions

<table>
<thead>
<tr>
<th>FUNDING OBJECTIVES</th>
<th>CONSIDERATION OF BENEFIT IMPROVEMENTS</th>
<th>REQUIRED CORRECTIVE ACTION RECOMMENDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A Fair Value Funded Ratio (Fair Value of Assets ÷ Actuarial Accrued Liability*) of 100% or more</td>
<td>• A Fair Value Funded Ratio of over 120% is required before considering benefit improvement recommendations</td>
<td>• The annual report to Governor and Retirement Laws Committee will include corrective action recommendations if SDRS does not meet both of the following conditions:</td>
</tr>
<tr>
<td>• A fully funded system with no Unfunded Liabilities under the Entry Age Normal Cost method</td>
<td>• The cost to fully fund the recommended benefit improvement is also limited to the net accumulated actuarial investment gains and losses, with gains recognized over a five-year period and losses recognized immediately</td>
<td>• Fixed, statutory contributions sufficient to meet or exceed the minimum actuarial requirement to support benefits, and</td>
</tr>
<tr>
<td>• Actuarially determined benefits that are variable and can be supported by fixed, statutory contributions</td>
<td>• After fully funding the cost of the benefit improvement, the Fair Value Funded Ratio must be at least 120% and all funding objectives must continue to be met</td>
<td>• Fair Value Funded Ratio of 100% or more</td>
</tr>
<tr>
<td></td>
<td>• Proposed benefit improvement must be consistent with both the Board’s long-term benefit goals and sound public policy with regard to retirement practices</td>
<td>• The report shall include recommendations for the circumstances and timing for any corrective action, including benefit changes, to improve the funding conditions</td>
</tr>
</tbody>
</table>

* Fair Value Funded Ratio = (Fair Value of Assets ÷ Actuarial Accrued Liability)
• Determine our mission, values, goals, and priorities and communicate those to all stakeholders to build support for, and confidence in the system
• Establish guideposts, measure results, and assess progress
• Sound governance by Board that:
  • Takes leadership responsibility for success of system
  • Actively deals with stakeholder concerns
  • Follows an informed, transparent, and collaborative decision-making process
• Support sustainability initiatives and avoid political activities
• On-going risk assessment that identifies key risks, establishes risk thresholds, and establishes actionable mitigation plans when thresholds are crossed